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SUBJECT: Mozambique: 2008 AGOA Eligibility Review

Country: Mozambique  
Current AGOA Status: Eligible

Country Background Summary: Between October 2006 and October 2007 the Government of the Republic of Mozambique (GRM) continued to make progress in establishing a market-based economy, eliminating barriers to US trade and investment, reducing poverty, promoting democracy, and protecting workers' rights. This positive trend should continue, especially as Mozambique begins to benefit economically from higher levels of international trade and investment, and deepen its trade ties with the United States under the Bilateral Investment Treaty (BIT) and Trade and Investment Framework Agreement (TIFA).

#### Comments on Eligibility Requirements

##### I. Market-based Economy

###### A. Major Strengths Identified

Q Mozambique continues to have one of the most dynamic and fastest-growing economies in sub-Saharan Africa, although the growth is from a very low base. Q Mozambique's decade-long commitment to sound macroeconomic policies and structural reform, supported by substantial donor assistance, has led to a significant improvement in economic performance. Q GDP growth between 1995 and 2005 averaged 8.4%, with the growth rate in 2006 estimated at 8.5% by the World Bank, up from 6.2% in 2005 (final). The average GDP growth rate for 2005 through 2009 is currently projected to be 7.3%.

Q The World Bank reports Mozambique's Inflation (GDP deflator) in 2006 at 13.2%, up from its final estimate of 11.1% inflation in 2005.

Q Mozambique encourages foreign direct investment, and CPI, the government's Investment Promotion Center, actively assists potential new foreign direct investors in Mozambique.

Q Foreign investors participated without significant impediments in Mozambique's privatization program.

Q Private investors continue to manage and rehabilitate the main ports of Maputo, Beira, Nacala and Quelimane through concession agreements.

Q The Nacala Corridor Development project, in which two U.S. firms have a significant holding, continued operating and rehabilitating the railroad and port system on a key transport route between Malawi and Mozambique. This project is supported by an OPIC loan worth US\$30 million.

Q The Brazilian Companhia Vale do Rio Doce (CVRD) finished exploration of its concession area, a massive

coal deposit in the Moatize region of central Mozambique, and finalized its contract for extraction rights with the GRM in 2007. CVRD anticipates that extraction and exportation will begin in late 2007/early 2008. The project is also expected to result in the construction of a coal-fired power plant, with the bulk of the electricity exported to South Africa.

Q Mozambique retained its international credit rating of B/B+ by Fitch Ratings, reflecting Mozambique's positive track record on economic reforms, political stability, strong economic growth, openness to FDI, and expanding exports. The most recent rating was published in May 2007.

Q Although small, the vast majority of Mozambique's exports to the US enter under either AGOA or GSP.

Mozambique's 2006 exports under AGOA and GSP provisions were valued at US\$11.8 million, up from 8.35 million in 2005. Goods exported under AGOA and the GSP provisions represented more than 75% of the country's total exports to the United States.

Q Numbers from the first three quarters of 2007 suggest that Mozambique's 2007 exports under AGOA and GSP provisions will be comparable to recent years.

Q South Africa is Mozambique's single largest trading partner. The EU is a significant market for Mozambican exports.

Q In 2006 the top ten foreign direct investors in Mozambique were South Africa, Mauritius, the United Kingdom, Ireland, Portugal, Malawi, the United States, India, Zimbabwe and Germany.

Q Mozambique is an active member of the Southern African Development Community (SADC).

Q In October 2006, the Mozambican government and USTR held the first Trade and Investment Council meeting under the Trade and Investment Framework Agreement signed in June 2005. The continuing bilateral dialogue bodes well for increased AGOA-related trade and investment in the future.

Q The GRM recognizes the importance of removing a number of obstacles to private sector development. To this end, steps are being taken to reduce the cost of doing business in Mozambique, address rigidities in the labor market, and improve basic infrastructure.

Q The "one-stop shops" for business registration were expanded to eleven locations, covering all provincial capitals, in 2006. The government states an intention to expand these to district-level capitals, however this has not yet materialized.

A regulation is currently proposed by the GRM to vest

the "one-stop shops" with the authority necessary to provide the stream-lined services intended.

Q In December 2005 the National Assembly approved major revisions to the Commercial Code - the result of a collaborative effort starting in 1998 between the Mozambican government, the private sector and donors.

Q A revised Labor Law passed Parliament in May 2007 and was promulgated in July 2007. This revision represents an attempt by the government to address the rigid labor legislation.

Q A joint private/public sector task force on IPR had some isolated successes in 2006-2007 stemming the flow of illegal products into the local market.

#### 1B. Major Issues/Problems Identified

Q Approximately a dozen large state-owned or operated companies remain, in the following sectors: telecommunications, electricity, insurance, oil and gas exploration, port and rail, airlines and airports, water supply, and fuel distribution.

Q Continued work is needed to streamline company registration processes and to share information about regulations and procedures between the private sector and government agencies, particularly in the area of trade facilitation.

Q The GRM has worked with the private sector to improve intellectual property rights protection via a

joint task force, but continues to have little ability to investigate crimes or enforce IPR laws; there remains a lack of coordination between government agencies and concerns about corruption in the form of raid tip-offs.

Q Access to capital continues to be a challenge in the business environment. Private ownership of land is not allowed in Mozambique. In December 2006, the GRM approved a modification to urban land-use rights, allowing for lease period up to 100 years (renewable) and minimizing restrictions on transferability of titles. For rural land, the government continues to grant land-use concessions for periods of up to 50 years, also with options to renew. The land-use concessions are not allowed to be used as collateral, making it difficult to obtain financing via the banking community.

Q Several companies continue to struggle with VAT reimbursement delays, with the Mozambican government hampered by income stream and red-tape issues. Additional work is needed to improve reimbursement turn-around time and streamline the overall process.

Q There have been some actions taken by the GRM that raise concerns regarding the sanctity of contracts, particularly concession agreements. This concern remains moderate; however, the situation should be closely monitored.

Q While there is improvement in many areas, the new Labor Law still contains provisions considered impediments to increased foreign and local investment.

## II. Political Reforms/Rule of Law/Anti-Corruption

### A. Major Strengths Identified

Q Mozambique has made significant progress in the consolidation of democracy since the signing of the 1992 Rome Peace Accord that ended sixteen years of civil war; Mozambique has a democratically elected government.

Q In December 2004 Armando Guebuza, then secretary-general of the ruling Frelimo party, was

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elected president with 64% of the vote, compared to 32% for his nearest competitor.

Q The election was generally considered free and fair, but was marred by some irregularities, which did not affect the outcome of the presidential election or control of the national assembly.

Q The political opposition retains 36% of seats in the national assembly and holds five mayorships, including that of Beira, the nation's second-largest city.

Q In August 2005 the Attorney General formally announced the creation of the Central Office for the Combat of Corruption (GCCC), which replaced the Anti-Corruption Unit (UAC) as Mozambique's primary corruption fighting office. As of August 2007 the GCCC had filed 13 new charges of corruption.

### B. Major Issues/Problems Identified

Q Though President Guebuza has repeatedly emphasized his desire to wage a serious campaign against corrupt government practices, corruption remains a problem and threatens to undermine Mozambique's democratic consolidation and economic growth.

Q Petty corruption by low-level government officials to supplement low incomes and high-level corruption by some political elites continues.

Q Corruption largely results from a lack of checks and balances among the three branches of government, minimal accountability of elected officials, and a culture of impunity.

Q Mozambique ranked 99 out of 163 countries on Transparency International's 2006 Corruption Perceptions Index.

Q There are no laws providing for the right of

public access to information, and in practice the government restricted citizens' access to public information.

Q Mozambique's judiciary continues to be under-trained, understaffed and susceptible to pressure from high-ranking government officials and bribery by private parties and the country suffers from a shortage of licensed attorneys.

Q Arbitrary arrest and detention continue to be a problem.

Q Freedom House's Freedom in the World index ranks Mozambique "Partly Free".

Q Although the GCCC continues to file charges of corruption, enforcement has been a serious problem. In August 2007 the Supreme Court refused to consider 15 corruption cases, with several Supreme Court justices claiming that the GCCC did not have legal authority to prosecute.

Q Excessive use of force at times by security Forces remains a cause for concern.

### III. Poverty Reduction

#### A. Major Strengths Identified

Q The GRM has placed poverty alleviation at the head of its policy agenda.

Q Mozambique has made tangible progress in this area, reducing poverty rates from 69% in 1996 to 54% in 2004.

Q Mozambique's second Plan for the Reduction of Absolute Poverty (PARPA II), covering the period of 2006-2010, was launched in June 2006. The PARPA II aims to reduce, by 2009, the percentage of the population living below the poverty line from 54% to 45%. The new plan maintains many of the same priorities of PARPA I, including emphasis on more training in the education and health sectors, strengthening good governance, developing basic infrastructure and improving macro-economic and financial management.

Q In 2006-2007, the donor community funded approximately 50% of the national budget. The HIPC and Enhanced HIPC (Heavily Indebted Poor Countries) debt relief programs have permitted increased budgetary support to alleviate poverty, including long-term investment in health, agriculture, basic infrastructure, and education.

Q The Millennium Challenge Corporation (MCC) signed a Compact with Mozambique for \$506.9 million in July 2007.

#### B. Major Issues/Problems Identified

Q Illiteracy and child mortality rates in Mozambique remain among the highest in Africa. In 2005 the illiteracy rate was estimated at around 55%, while in 2004, the mortality rate for children under five was 151.6 per 1,000 children.

Q Life expectancy at birth dropped to just over 40 years (41.9 in 2004), and is expected to continue to decline into the 30s by 2010 as the result of HIV/AIDS.

Q The country also lacks infrastructure, electric power, and clean water for most of its citizens.

Q HIV/AIDS is a growing problem, with infection rates increasing to a national average of over 16% of the sexually active population.

Q Education is compulsory through the age of 12, but enforcement of compulsory education laws is inconsistent, due to the lack of resources and the need for additional schools.

### IV. Workers' Rights/Child Labor/Human Rights

#### A. Major Strengths Identified

Q The Constitution provides that all workers are free to join or refrain from joining a trade union, and workers enjoy these rights in practice.

Q In 2007 the GRM increased the country's

statutory minimum wage by 13%.

Q Mozambique has ratified ILO Conventions 105 on Forced Labor 182 on the Worst Forms of Child Labor.

Q The Ministry of Labor regulates child labor in both the informal and formal sectors. Forced and bonded labor by children is prohibited by law. Labor inspectors may obtain court orders and use police to enforce compliance with child labor provisions.

Q Violations of child labor provisions are punishable with fines ranging from one to 40 monthly salaries at minimum wage. The government disseminated information and provided education about the dangers of child labor.

Q There were no reports of political detainees.

Q The independent media were active and the international media were allowed to operate freely.

Q The law provides for freedom of religion, and the government generally respected this right in practice.

Q In 2003, a revised family law was adopted that increases the status of women.

#### B. Major Issues/Problems Identified

Q Less than two percent of the workforce was covered by collective bargaining contracts, in part due to the very small percentage of the workforce employed in the formal economy.

Q Labor unions, created during the socialist years, continue to lack resources, remain relatively weak and are disengaging themselves from the ruling party, FRELIMO.

Q Child labor remains a problem in Mozambique.

A 2003 study estimated that one-third of children between ages 10 and 14 were economically active. This is largely the result of children working in the informal or agricultural sectors, including family farms, rather than children being used as laborers in the formal industrial sector, something that rarely happens.

Q Children orphaned by HIV/AIDS are often forced to work because they are left without any adult family members to support them.

Q The Government's human rights record remains poor; although there were some significant improvements in a few areas.

Q Prison conditions remained life-threatening.

Q Security force members beat and abused detainees.

Q Although the law provides for freedom of speech and of the press, journalists sometimes practice self-censorship, and police have been known to harass journalists.

Q The law generally provides for freedom of association, although the government imposed some limits on this right. A government decree regulates the registration and activities of foreign NGOs. The registration process for foreign NGOs and religious groups reportedly involved significant discretion on the part of government officials and regularly took several months.

Q Mozambique is ranked a Tier II Watch List country by the Department's annual Trafficking in Persons report. Mozambique is a source country for women and girls trafficked for the purpose of sexual exploitation. The Government of Mozambique does not fully comply with the minimum standards for the elimination of trafficking; however, it is making some attempts to do so. Mozambique currently has no law explicitly prohibiting the trafficking of humans. The trafficking of children for commercial sexual exploitation and labor remained a problem.

Q Domestic violence against women is widespread. There is no law that defines domestic violence as a crime; laws prohibiting rape, battery, and assault may be used to prosecute domestic violence, however there is no legal prohibition against spousal rape.

Q Exploitation of children under the age of 15 and child prostitution remains a concern.

#### IV. International Terrorism/U.S. National Security

##### A. Major Strengths Identified

Q Mozambique does not engage in activities that undermine United States national security or foreign policy interests.

Q The Mozambican government, including the Central Bank, cooperates with international efforts to counter terrorist activities.

Q To the extent possible, given its limited resources, the Mozambican government fully cooperates on international anti-terrorist efforts.

##### B. Major Issues/Problems Identified

Q Money laundering activities in Mozambique continue to be suspected and cause for concern.

Q Although the Mozambican government is committed to securing its borders, limited resources make this difficult.

Q Mozambique's approximately 1500 mile coastline remains largely unprotected and vulnerable to smuggling, illegal fishing and illegal entry into the country.

Chapman